AB

Prime Minister.
We have arranged for the Foreign Secretary and Chancellor (+ your usual team) to discuss paras. 5 to 8 with you tomorrow at 3.15.

A.J.C. 3/4.

(1)

Qz.03659

MR COLES

THE EUROPEAN COMMUNITY'S BUDGET: THE REFORMED FINANCING SYSTEM

Objectives

1. The principal objectives of the United Kingdom in the negotiations launched at the Stuttgart European Council last year were:-

(i) to establish a lasting reformed system for financing Community expenditure which would have the effect of substantially reducing the United Kingdom's net contribution. In particular, against the initial opposition of all other member states, we wished to include the new system in a revised version of the Community's basic financial law, namely the 1970 Decision on Own Resources. This Decision is equivalent to a Treaty and can only be changed by unanimous agreement of member states and their national parliaments. It follows that, once we have put the new system into the revised Decision, it can only be changed with our agreement. Thus in the future other member states would still have to get United Kingdom agreement to any increase they might want in the VAT ceiling on Community finance. The United Kingdom, on the contrary, would not have to get the agreement of other member states to its refunds because they would already be the automatic result of a system which could not be taken away. This would be a fundamental change in the balance of power in the Community. We have negotiated into the French Presidency's text presented to the European Council on 20 March and now accepted by all member states the statement that the correction mechanism will form part of the decision on new own resources;

(ii) the correction of a member state's net contribution should be made by simply reducing the amount of VAT which it pays to the Community. This was strenuously opposed by many member states but has now been accepted in the Presidency text presented to the European Council on 20 March. This method removes the difficulties associated with the ad hoc refunds in recent years, which were implemented through extra Community payments to the United Kingdom and could thus be blocked by the European Parliament and other member states (as has currently happened in relation to the 1983 refund);

(iii) the establishment of a limit on a member state's net contribution, this limit being expressed as a percentage of the gross domestic product and varying only in line with its relative prosperity. Member states whose gross domestic product per head was at or less than 90 per cent of the Community average would have a limit of zero on their net contribution while the richest member states would have high limits. The United Kingdom's proposal in our safety net paper was that the United Kingdom's limit should be about 0.1 per cent of gross domestic product. The system was, of course, carefully calculated to produce a limit for the United Kingdom (our relative prosperity is currently about 96 per cent of the Community average but in a Community of 12 will be about 105 per cent) which would be favourable to us both in the present and in an enlarged Community. The Presidency text states that the budget correction will take place beyond a limit (called a "threshold") "which will be expressed as a percentage of absolute GDP. This percentage will vary as a function of relative prosperity as indicated by per capita GDP in a Community of 12."

2. These objectives were not adequately reflected in the Presidency text which was available at the beginning of the European Council on 19-20 March. They have, however, been achieved in the text which was negotiated during the European Council (text of 1700 hours, 20 March) which is still - just - on the table.

/3.

Negotiating situation

3. The negotiating situation which confronted the Prime Minister at the European Council was very unsatisfactory because the Nine had ganged up on a refund not higher than 1000 million ecu and insisted that an ad hoc arrangement at this level should last for 5 years before the system was introduced. The Kohl proposal was worth no more than 5000 million ecu to the United Kingdom over the next five years. The final Kohl/Lubbers/Thorn proposal (ad hoc refund of 1000 million ecu for 2 years, with system thereafter on basis of reference figure of 1000 million ecu for the refund) was worth about 8100 million ecu to the United Kingdom over the next five years. Subsequently we have achieved a reduction in the period of ad hoc refunds to one year only and confirmation of agreement on the system which will apply after the one ad hoc year.

4. At this point our negotiating aims are:-

(i) not to lose the system

(ii) to put an acceptable starting figure into the system

(iii) if possible, to get a specific agreement on the limit ("threshold") expressed as a percentage of our gross domestic product and on our marginal rate of contribution ("ticket moderateur") to the potential increase in Community expenditure. This would be an insurance against rats trying to nibble away at the system before it is included in the legal text.

5. The fiction that the Presidency text at the European Council is still under discussion and may be agreed can only last until the Foreign Affairs Council of 9-10 April. The Commission, after seeing no way through the deadlock at the Foreign Affairs Council of 27 March, is now in confidential contact with us. Starting from the basis of a refund of 1100 million ecu on 1983 figures, they may propose that:-

(i) the limit ("threshold") for the United Kingdom would be 0.05% of gross domestic product. On 1983 figures this would give a contribution of 250 million ecu.

/This

This element is itself more favourable to the United Kingdom than our own proposal but must, of course, be seen in conjunction with the other parts of the package. The Commission may also propose that, as a qualifying condition for compensation, the VAT share/expenditure share gap should be at least 0.1% of GDP. This is unlikely to be of practical importance for us but a similar provision applied pari passu to Germany could ensure that the German limit would be very high and that we should not therefore be contributing to any German compensation;

(ii) Marginal "ticket moderateur". The United Kingdom would be reimbursed 90% and would contribute 10% of its unadjusted net contribution above a certain level. This would provide us with a good protection against rising Community expenditure in the medium term;

(iii) the net effect of (i) and (ii) being very favourable to the United Kingdom, the Commission proposes that for a first tranche of the unadjusted net contribution above the limit, the rate of compensation should be 77 per cent and the rate of contribution 23 per cent. These figures are calculated with the aim of giving a refund of about two thirds of the VAT share/ expenditure share gap.

6. Our own calculation is that this system would give us refunds in 1985, 1986 and 1987 of about 57%, 64% and 65% respectively of our full unadjusted net contribution. In principle, the percentage refund will rise if the unadjusted net contribution rises in later years. Here is the calculation for 1985 -

/ . . .

	million ecu	
unadjusted net contribution	2310	
levies and duties	300	
VAT share/expenditure share gap	2010	
threshold (0.05% of GDP)	297	
excess	1713	
ticket-moderateur	394	
adjusted net contribution	991	(£585 million)
refund	1319	(£778 million)

7. Our calculation of the additional refund which the United Kingdom will receive over the next five years on the basis of the latest Commission suggestion, by comparison with the offer which Chancellor Kohl and his colleagues sought to impose on the United Kingdom in the European Council and which the Prime Minister rejected, is about £2200 million.

8. I am sending a copy to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

3 April 1984

84	85	86		
681.2	778	880		
84.	85	86.	87	88
100.0	97.7.	111.1	120.5	125.2
	£ 5.76.	£6.58	£7.11	£7.62

(1)

10 DOWNING STREET

Prime Minister.

EC Budget.

We may be approaching a critical point in the negotiations. Would you like Lord Whitelaw to attend the meeting with the Foreign Secretary and the Chancellor arranged for 3.15 tomorrow (see meeting folder)?

Yes mt

A. J. C. 3/4.

SPEAKING NOTE ON BUDGET IMBALANCES

Glad to see that some progress has been made since Athens. But unfortunately this item still seems to be in a much less advanced state of preparation than the others. Presidency text contains some useful elements, but requires to be clarified in some parts and changed in others if it is to provide a basis for agreement. There is also a German paper and President Thorn gave me a very useful paper from the Commission when he came to see me on Friday, and which I believe he has given to others.

I suggest that we ought now to have a discussion of substance, rather than look at texts, to establish how much common ground we have and to try to settle any outstanding points of difference.

MAIN POINTS IN CORRECTIVE SYSTEM

Suggest that elements on which we are already close to agreement are:

(i) System of reliefs should provide an upper limit (threshold) on a Member State's contribution based on relative prosperity, and with upper limit (threshold) expressed as percentage of GDP. If a Member State becomes relatively more prosperous, its threshold rises accordingly.

/ (ii)

(ii) Reliefs on contributions above the limit to take the form of reduction of VAT payment in the following year.

(iii) System to be incorporated in the revised Own Resources decision, to take effect in respect of 1984, and to remain in force as long as the revised decision.

I hope I am right in thinking that this is the meaning of the Presidency text.

Let me now comment on some other points.

NOT START BY CALCULATING UK REFUND

First, I think it would be illogical and unwise to base the whole system on a calculation of a correction for the UK based on 1982 figures.

(a) last time this approach was adopted, contrary to our wishes, it gave the UK a net contribution of 9 m. ecus in 1981 which was not what others wanted.

(b) 1982 was in several respects not a typical year.

/ (c)

(c) since we do not yet have 1983, let alone 1984, figures, we do not know if a calculation based on 1982 will give a fair result.

So what we should do is to calculate the thresholds based on relative prosperity in a Community of 12, as the Presidency text suggests. The size of the correction will be a function of that. [Indent 2 + 7 inconsistent]

TICKET MODERATEUR

I now turn to the level of correction above the threshold. All three texts before us suggest in different words that it should be less than 100%. I will be frank. Whatever the system, I shall have to justify it to my own Parliament in terms of the net contribution which the UK will be paying. It is understandable that the Commission and other Member States should want us to make a very large contribution and should therefore want not only a high threshold but a percentage contribution beyond it. I am not convinced of the case for this. But my attitude is strictly practical. It is the result that matters. If others prefer to fix a very low threshold, I should be prepared to consider a very low percentage contribution beyond it. If not, not.

/ ADMINISTRATIVE...

ADMINISTRATIVE EXPENSES AND ENLARGEMENT

Then there are the questions of administrative expenditure and the cost of enlargement, where proposals are made designed to increase the UK's net contribution.

On administrative expenses,

(i) Belgium and Luxembourg will, I am sure, not contest that the advantages which they draw from having the Institutions far exceed the purely budgetary expenditure in their countries. In any case excluding all admin expenditure from the allocated budget would make no difference to them because they are net beneficiaries

(ii) under the existing allocated budget, 15% of administrative expenditure is already excluded.

(iii) the UK's net contribution after correction will be many times our share of administrative expenses, so no-one can say we shall not be paying our subscription the club.

I strongly advise against any further attempts to make changes in the allocated budget. The text should say it will remain unchanged.

/ On

On enlargement,

(i) the net benefits which Spain and Portugal will draw in the early years after enlargement, which will be the cost to the 10, will be small.

(ii) as I have already said, I am prepared now to accept a system based on relative prosperity in a Community of 12; that will take account of enlargement.

(iii) it would be contrary to everything that has been said about not hypothecating expenditure to "neutralize" the costs of enlargement as the Commission suggests. to charge it up separately.

THE GAP

Finally I turn to the most difficult problem, the measurement of the burden. The real burden for a Member State, as everyone knows and as the discussion of the costs of enlargement shows, is the net outflow of funds to Brussels and on to other Member States. Without correction more than 160 million ecus a month £100m would have flowed out of London into the allocated budget. I cannot deceive the British Parliament and pretend the gap is something less.

/ The

The Presidency paper is obscure on this point. It says that the part of the budgetary imbalance due to extra - Community trade will not be taken into account. If that meant excluding the tariffs and levies altogether, that would reduce the UK gap from about 2,000 million ecus to about 300 million ecus. I cannot think this is the Presidency's intention.

The German and Commission papers suggest measuring the imbalance by the difference between expenditure shares and VAT shares, that is to say counting the tariffs and levies as though they were VAT. I see no justification for doing this, since:-

France
VAT 23.9
Levies 12.6
Duties 15.7

U.K.
VAT 22
Levies 24.6
Duties 26

Their share of tariffs & levies is smaller than share of VAT. Our share + Belgium & Netherlands is bigger.

(i) it discriminates against the UK, and incidentally against Belgium and the Netherlands, while discriminating in favour of Germany and France. We calculate that to treat German and French tariffs and levies as though they were VAT would be to measure their gaps as being roughly 200 m. ecus and 700 m. ecus more respectively than their whole net contributions.

(ii) in the case of the UK, on the average of the four years up to 1982, our VAT/expenditure share gap has been 350 m. ecus less than our real gap.

So a threshold system based on VAT/expenditure share gap would have to produce a threshold 350 m. ecus lower than one based on the own resources/expenditure share gap.

/ Even

Even from the point of view of other Member States, is it really sensible to try to pretend that the contribution we shall be making after correction is smaller than it is? As far as I am concerned, I shall have to tell my own Parliament the true figure.

CONCLUSION

Mr. President, there remains much to be settled. There is also the question of the German request for a limit to be looked at. We cannot do it all at once. I suggest that we ask the Secretary-General to produce a new paper which sets out the elements of an arrangement on which we might all be able to agree. It should leave on one side for the moment the vexed question of the measurement of the gap to which we can return later. The sooner he can do this the better.

If Mitterrand tries to organise pressure on us to accept a low refund

No rational arguments have been advanced in favour of the UK making a net contribution of 1,000 m. ecus or more. [The average for the last four years has been just over 500 m. ecus]. We shall only be just above the average in relative prosperity in a Community of 12 in 1986. If we get richer, absolutely and/or relatively, we shall have a higher limit. Four Member States

/ much

much more prosperous than us will remain net beneficiaries. Each 100 m. ecu of relief for the UK reduces their net benefits by very small sums - for example, 2 m. ecus for Denmark. So I must ask that the threshold, and ticket moderateur if there is to be one, be set at a level which produces a total net contribution for the UK of the order of 4-500 m. ecus.

Burden on us very large.

VAT on Payments Basis.

Expenditure on basis of present allocated budget,

i.e. where expenditure falls.

[Not allocated Aid some Admin, Aid to non-associates, Food Aid]

AGRICULTURE

Speaking note for the Prime Minister

The Presidency is right to concentrate on the major questions in the agricultural part of the post-Stuttgart negotiations. I have a limited number of points, but they are important. This European Council must give a bigger impetus to reforming the operation of the common agricultural policy (eg guarantee thresholds, price restraint) and to avoiding misuse of resources.

First, milk. The Agriculture Ministers have reached an agreement on the main elements of the quota/superlevy system. I would recall to my colleagues that this will be hard for British farmers, who will take a cut in the volume of milk deliveries of more than 7%. This is a bigger cut than for dairy farmers in, for example, France, Italy or Luxembourg (France 2.9%, Italy 5.2%, Luxem bourg 6.3%) With our Netherlands colleague we have a reserve on the proposal that there should be an extra 0.6 million tons of milk above the basic 97.2 million tons (98.2 million in 84/85). The United Kingdom is

Irish case

strongly opposed to any form of exemption or discrimination in the quota/superlevy scheme. If I were to withdraw my reserve on the 0.6 million tons, I would need to be sure that it would cover all the special demands from Ireland, Northern Ireland, Italy, Luxembourg and Greece.

Secondly, MCAs. The documents give the impression that there is one problem remaining. In my view there are two. There is the question of any Community financial contribution to the German measures. There is also an important general reserve because we need to be sure that there are rules governing the phasing out of the negative monetary compensatory amounts created or likely to be created by the new system. The proposed new system will be very expensive. We need some safeguards. I propose that the phasing out of negative MCAs should be over 3 years.

Thirdly, guarantee thresholds in general. We were close to an agreement in Athens. Guarantee thresholds are the centrepiece of our long term policy. We need them where products are or are likely to be in surplus, or where expenditure is rising quickly or where production is increasingly more rapidly than consumption. I understand that these matters have been incorporated in a new text which we must endorse here as part of our proposals.

Fourthly, cereals. I hope that we can agree that the Community does intend to progressively narrow over a period of years the gap between Community prices and those of our principal competitors. That would certainly be welcome to our livestock farmers. If so, we should say so.

Finally, I do not propose that this meeting of the European Council should discuss in detail the beef variable premiumor the calculation of the ewe premium. The beef variable premium should continue. We can look at this and the ewe premium again in 1985.

I raise these points so that they can be reflected later in a revised Presidency text.

Our resources
stretched [illegible]
[illegible]

AGRICULTURE

Reserve for later

The cash shortage in 1984

The President of the Commission is right to draw our attention to this looming problem. I do not under-rate its importance in the short term . But we cannot solve it here and now. First, the Agriculture Ministers have not yet completed their package, although they have moved forward. They must be told to continue their search for savings. Secondly, this is March: we simply cannot be sure exactly how the agricultral expenditure is going to turn out. Thirdly, we have to settle our major long-term issues in the post-Stuttgart package first, including the question of budget imbalances which is critical for my country.

If it looks like packing up without agreement, I do think we should ~~propose~~ propose a Foreign Minister's meeting in 10 Day's time.

Progress on all ~~[illegible]~~ subjects – e.g., discipline, System, etc.

∴ not give up.

Even if not accepted, it will help with press

Prime Minister

Budget Imbalances text only.

NET.

We need the word "net" after the figure at X. If anyone challenges this you should point out that otherwise the U.K. will be financing its own reduction. This would be contrary to what is said at the bottom of the previous page – burden to be borne by the other member States.

2. We need to get it confirmed that Y means VAT on a payments basis and the allocated budget as at present constituted.

Line to take.

I assume that "in accordance with existing criteria" means VAT on a payments basis and the allocated budget as at present constituted. Perhaps the Secretary-General could note that this is agreed.

Michael Butler

Prime Minister.

1982 Risk-Sharing: £42m.

We discussed this in the plane.

Options. (1) scoop it up at the end. V. difficult.

(2) trade it for right figure on refund. Just possible

(3) Go to Court.

£42m is 70m ecus. One possible line to take if you went for option (2).

As you know, there is one outstanding budgetary dispute between us. A majority of budget Ministers arbitrarily reduced our 1982 risk-sharing money by 70m ecus in

D R A F T

CONCLUSIONS OF THE PRESIDENCY

INTRODUCTION

The European Council reached agreement on a series of decisions and guidelines to ensure the relaunch of the Community and establish a solid basis for its further development during the present decade.

During this period, it will be important to maintain and consolidate the "acquis communautaire", particularly for a modernized common agricultural policy, increase efforts towards greater convergence between the Member States, move towards enlargement of the Community under satisfactory conditions and give priority to action to strengthen the competitiveness of Community industries.

The European Council considers that by pursuing these guidelines the Community will make a significant contribution to the economic growth of the Member States and to the combating of unemployment.

It considers that only a stronger European identity will lead to the Community playing its full role in the world, in particular with a view to re-establishing economic and monetary stability.

NEW POLICIES

With a view to the creation of a genuine Economic Union, the Council intends, through specific commitments, both externally and internally, to give the European economy an impetus comparable to that which it derived from the founding of the Customs Union in the early sixties.

The following priority objectives will be pursued:

- convergence of economic policies and Community action, capable of promoting productive investment and thereby a vigorous and lasting economic recovery;

- development, in close consultation with the Community industries and bodies concerned, of Europe's scientific and technological potential;

- strengthening of the internal market so that European undertakings derive more benefit from the Community dimension;

- protection of employment, which is a crucial factor in Community social policy.

The European Council asks the Council of Ministers to actively pursue the examination of the Commission proposals which already meet these objectives and requests the Commission to report to it in time for its meeting in June on the progress made on revitalizing Europe, laying particular emphasis on the following sectors:

(a) The European Council stresses the importance of the agreement reached on the launching of the ESPRIT programme, which is an exemplary co-operation project between undertakings.

It expects the Council of Ministers to specify without delay the other areas in which Community initiatives are called for.

An outline programme will be adopted before the end of the first half of 1984 in the areas of telecommunications and bio-technology. Scientific and technical co-operation and exchanges will be intensified in the Community, in particular by the encouragement given to mobility among researchers.

It agrees on the need to increase the proportion of Community resources devoted to financing priority Community research and development activities.

(b) The European Council is satisfied with the agreement reached on reducing technical barriers to trade and combating illegal commercial practices by the Community's partners, and considers that new measures need to be adopted rapidly to:

- simplify formalities in trade within the Community and modernise the customs system,

- harmonize European standards and products, and open up public contracts in the Member States to European undertakings,

- harmonize conditions of competition and progressively liberalize trade in services, notably in the transport and insurance sectors,

- implement a common transport policy and a transport infrastructure programme of Community interest,

- develop a suitable climate for co-operation between European undertakings by establishing a favourable legal and tax framework.

- make full use of existing financial instruments to aid Community policies, and to encourage productive investment.

(c) The European Council reaffirms that the ECU is the central element and pillar of the EMS. It is pleased with the spontaneous growth in the private use of the ECU and notes that the Council of Ministers is continuing its discussions with a view to developing the EMS by making specific adjustments.

Steps will be taken to encourage greater use of savings available within the Community for financing investment. The Council therefore considers that significant progress will be made in order to improve financial integration within the Community.

(d) The European Council asks that, before its next meeting in June 1984, the arrangements necessary for the organization of the European Social Area be prepared, with the aim of fully associating social forces with the economic and technological changes which are decisive for recovery prospects within the Community.

It also requests the Ministers for Education and the Commission to consider ways and means of promoting language teaching in each Member State.

COMMON AGRICULTURAL POLICY

The European Council reaffirms the Community's resolve to ensure the continuity and development of the common agricultural policy in compliance with the basic principles thereof, as set out in Article 39 of the Treaty, and in the desire to increase efficiency in the agricultural sector as a whole by means of rationalization in relation to current economic conditions.

In this context the European Council approves the points of agreement reached within the Agriculture Council as embodied in the documents on MCAs (5803/84), milk (5802/84), other products and the method of calculating MCAs (5847/84).

In addition, the European Council adopted the following text:

Commercial policy

The European Council considers that the adjustment to the market situation for all products coming under the common agricultural policy, particularly through the creation of guarantee thresholds and co-responsibility, will enable the Community to base its agricultural export policy on a sound economic foundation and ensure satisfactory compliance with the Community preference and its international commitments.

The framework agreements concluded with third countries for the supply of agricultural products can constitute one of the instruments of its export policy.

The Community will also have to contribute to the development of a food strategy for the developing countries, with priority for the African, Caribbean and Pacific countries. In that context, specific agreements may be concluded with those countries which so request in the context of their food security policies.

Finally, within multilateral fora the Community will ensure that comparable obligations obtain in the development of agricultural trade for the main partner exporting countries.

Lastly, the European Council would adduce the following further points:

The European Council decides that the 600 000 t reserve provided for in paragraphs 2 and 3 of the agreement on milk reached within the Agriculture Council is increased to /_900 000 t_/ /_1 million t_/. The reserve will be distributed by the Commission in accordance with guidelines to be worked out by the Council having regard to particular problems in Ireland, Italy and Luxembourg. The European Council further agrees to ask the Agriculture Council, acting on a proposal from the Commission, to take a decision providing for special measures for Irish agriculture under the EAGGF, Guidance Section, with a view in particular to rationalizing stock-farming; the cost of these measures will not exceed 40 MECU.

/‾- the tax on oils and fats_7

The European Council calls on the Council (Agriculture) to adopt the acts relating to the aforesaid decisions, before 31 March 1984.

- MCAs: amount of Community aid.

The Community will make a contribution towards financing this aid on a decreasing scale in 1985 and 1986. A Community contribution may be decided on in 1987 in the light of trends in the level of national compensation effected by the Federal Republic of Germany, duly authorized by the Commission. The Commission will in due course submit a proposal to the Council, which will take a decision at the earliest opportunity.

STRUCTURAL FUNDS

1. The European Council considers that the Structural Funds should become effective Community policy instruments aimed at alleviating regional development lags and converting regions in industrial decline; promoting dynamic and competitive agriculture by maintaining and developing effective agricultural structures, in particular in the less-favoured regions; combating unemployment, in particular youth unemployment.

To that end:

(a) Management of the Funds will be improved having regard to the observations of the Court of Auditors, in particular by a suitable evaluation of the aid they provide and the elimination of any duplication, through improved co-operation between the Commission and the Member States.

(b) An attempt will be made to combine aid from the various Funds, for example in the form of integrated programmes.

With this in mind, integrated Mediterranean programmes will be launched in favour of the southern regions of the present Community so as to be operational in 1985. Designed to be of limited duration, such programmes will have as their aim improvement of the economic structures of those regions to enable them to adjust in the best conditions possible to the new situation created by enlargement. They will also prepare a solution to the problems raised in the Greek Memorandum.

(c) Within the framework of the accepted principles governing budgetary discipline and the future financing of the Community, the financial resources allocated to aid from the Funds, having regard to the IMPs, will be /¯substantially_7 increased in real terms.

The current discussions initiated on the basis of the Commission's proposals, relating to the revision of the ERDF and the EAGGF Guidance Section, must be concluded before the next meeting of the European Council.

BUDGETARY AND FINANCIAL DISCIPLINE

1. The European Council considers it essential that the strict rules which at present govern budgetary policy in each Member State also apply to the budget of the Communities.

The level of Community expenditure will be fixed as a function of available income.

Budgetary discipline, which calls for a combined effort by all the Institutions within their respective powers, will apply to all budget expenditure.

2. The European Council invites the Council of Ministers for its part:

- to fix at the beginning of the budget procedure a reference framework, i.e. the maximum level of expenditure which it considers it must adopt to finance Community policies during the following financial year;

- so to proceed that the net expenditure relating to agricultural markets calculated on a three-yearly basis will increase less than the rate of growth of the own resources base. This development will be assessed on comparable bases from one year to the next. Account will be taken of exceptional circumstances, in particular in connection with enlargement. The provisions laid down in the Commission document on financial guidelines concerning the common agricultural policy will be implemented;

- to undertake to comply with the maximum rate throughout the budget procedure. On the first reading the Council will keep the increase in Non-Compulsory Expenditure at a level no higher than half the maximum rate. On the second reading the Council will adopt a position such that the maximum rate is not exceeded.

3. The European Council requests the Council of Ministers to adopt the necessary implementing measures for the principles set forth in paragraph 2, /¯which will supplement the Financial Regulation._7

BUDGETARY IMBALANCES

Control of expenditure and rebalancing of the budget constitute in the long term the essential means for resolving the problem of budgetary imbalances.

However, pursuant to the Stuttgart Declaration, any Member State which bears an excessive budgetary burden with respect to its relative prosperity may benefit from a correction at the appropriate time.

The details of the correction will be adopted by the Council of Ministers by June taking account of the following factors:

- the basis for correction is the disparity between the share in the VAT basis of assessment and the share in allocated expenditure;

  A part of the administrative expenditure will be charged to each Member State in accordance with a formula to be determined.

- correction will only occur above a certain threshold, to be determined, which will be expressed as a percentage of absolute GDP in a Community of 12; this percentage will vary according to the relative prosperity of each Member State as indicated by its per capita GDP;

- a Member State benefiting from compensation will bear a percentage, to be determined, of the additional cost arising from the increase in the basis of the correction, including the expenditure linked to enlargement;

- the correction will be deducted from the normal share of VAT of the Member State concerned in the budget year following that in respect of which the correction has been made; the resulting burden for the other Member States will be allocated according to their normal share of VAT;

- corrections will be an integral part of the new financial system. They will apply until the new own resources are exhausted.

In the case of the United Kingdom the correction would amount to .... MECU, on the basis of ..... MECU, taken as an example and calculated as shown above. For 1984 this correction will be fixed by analogy with the correction arrangements to be applied from 1986 onwards. It will be paid in 1985 in accordance with procedures to be determined which will not affect the level of Community expenditure.

OWN RESOURCES AND ENLARGEMENT

The maximum rate of mobilization of VAT will be /¯1,X%_7; this maximum rate applies to every Member State and will enter into force as soon as ratification procedures are completed and by 1 January 1986 at the latest.

The European Council requests that the negotiations on the accession of Spain and Portugal be completed by 30 September 1984 at the latest. This will make it possible for both texts requiring ratification, i.e. the texts on enlargement and on the creation of new own resources, to be submitted to national parliaments simultaneously.

When the new VAT ceiling has nearly been reached, the Commission will submit a report on the results of budgetary discipline, the Community's financial requirements, developments in the structure of the budget and their impact on the situation of the Member States. This report will be accompanied by appropriate proposals.

The Council of Ministers will take the necessary measures on the basis of the Commission report.

For the record: Financing of the Community budget prior to the entry into force of the decision on new own resources.